PLANNED PRODUCTION FOR THE DAIRY INDUSTRY

A radio talk by H. R. Tolley, Assistant Administrator, Agricultural Adjustment Administration, delivered in the Department of Agriculture period, National Farm and Home Hour, Tuesday, March 27, 1934, braodcast by a network of 50 associate NBC radio stations.

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Next week the Agricultural Adjustment Administration is going to talk over a dairy program with farmers in 15 regional meetings.

We are going to take the consumers into our confidence, too. Today I want to discuss the dairy plan especially from the consumers' point of view.

I mean particularly the city consumers. It is true that an enormous gap exists in dairy consumption among farmers themselves and the Adjustment Administration's program proposes to do something to remedy that, too. But that is a situation which I will leave to D. P. Trent to discuss with the radio audience at about this time on Thursday.

The dairy problem, more than any other agricultural problem, teaches that in this great country we are all pretty much in the same boat.

The dairy farmer is absolutely dependent on the consumer, and on the extent of the consumer's buying power. Dairying is a domestic industry. Exports of dairy products are not a factor. What the dairyman sells, he sells here in this country.

Trouble for the dairy industry never brings any lasting benefit to the consumer. It is true that when dairy prices collapse, consumers for a time are able to buy cheaply. But the effect of low prices is to starve out farmers and choke off production to a point where a cycle of abnormally high prices sets in. Then the consumer pays back more than he saved in the period of cheap dairy products. These cycles of abundance and scarcity tend to balance each other in the long run. But both the farmer and the consumer are injured in the process. A comparatively stable and controlled production would be in the interests of both.

Let's be more specific. Milk production in 1932 reached a total of 102 billion pounds. The number of dairy cows on farms this year exceeds 26,000,000 -- a record.

We have had a milk flood, and with a record number of milk cows on hand, and spring pasture and freshening season near, another greater flood is in prospect. If the city consumer didn't stop to think, he might expect to benefit from cheaper butter this year.

But that would be a short sighted point of view. The people in the cities do not really gain from the ruin of farmers that results from collapse of prices. In fact, they are injured much more than they are helped.

The cash income of farmers from dairy cows fell from $1,847,000,000 in 1929 to $985,000,000 in 1932. That was a decline of almost 50 percent.

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Think what such a collapse means in terms of suffering on the farm -- farmers losing their homes, women and children going without clothes and shoes, barns unpainted, building stopped, machinery and fertilizer and lumber buying at a standstill.

The great decline in dairy income meant increased idleness in city mills and factories. Economists calculate that the decline in all farm income in the depression accounted for unemployment of 4,000,000 people in the cities. One-fourth of all farm income normally comes from dairying. So the decline in dairy income alone accounted for enormous unemployment.

The paralysis of industry, employment and business which accompanies such a shrinkage of farmer buying power is far more costly to city consumers than paying fair prices for farm products would be. There is a close tie between city and farm prosperity.

Next to the farmers, the Agricultural Adjustment Administration has had the consumers uppermost in mind in developing its dairy program. This program aims to hold sales of dairy products at about or near their present seasonally low levels. This would involve a reduction of sales in the flush season of production, so as to bring about an average 10 percent reduction from the high average of 1932-33. The method would be by contract between the government and the dairy farmers. About 150 million dollars would be paid to contracting farmers.

Additional supplementary features of the plan provide $5,000,000 to be spent for surplus milk to underfed children in cities; $5,000,000 for eradication of bovine tuberculosis and $5,000,000 for purchase and distribution of surplus cows to needy farm families.

Like our other farm programs, that for dairying would be financed by a processing tax. Now, of course, foes of the farm plans in talking to farmers usually try to convince them that they are paying this tax, and then tell consumers that they are paying the tax, too.

Now, the tax isn't going to be paid twice. Experience shows that as production is brought under control, the tax tneds to be paid by the consumer. This would be true as to butter, and other manufactured dairy products. The plan is to start the tax at 1 cent a pound on butterfat and raise it gradually to 5 cents a pound.

But at the maximum rate, if consumers pay the entire tax on all forms of dairy products, the average cost would be only about 15 cents per person per month, or about 75 cents per month for a family of vie. I, for one, do not believe most consumers would dissent, on grounds of so moderate an expense, to any reasonable proposition for helping recovery of the dairy industry.

As to fluid milk, sold to consumers in bottles, a tax of 5 cents per pound of butterfat would amount to only one-half a cent a quart. The milk distributors' spread has not declined comparable to the decline in farmers' prices. The tax would probably be absorbed, therefore, to a larger extent in the distribution charge. And right here let me add that the Agricultural Adjustment Administration will not return to the policy it once tried of fixing prices at which milk shall be sold by distributors to consumers. We will not again place ourselves in the position of even indirectly guaranteeing by law distributors' profits which in many cases already are more than ample. But if it becomes necessary to prevent pyramiding of taxes, we can establish maximum prices above which no one will be permitted to sell. In this regard, we have powers in the law to protect consumers.

Supplies of fluid milk for city consumers should be increased rather than decreased under the production control program. For this there are several reasons. In the first place, the plan does not call for any reduction in the supplies sold to consumers as fluid milk.

Farmers supplying the cities sell their milk on a price schedule drawn according to the use to which the milk is put. Milk sold to consumers in fluid form is Class 1 or base milk.

Other classes are sold as surplus at prices usually half or less of Class 1. Milk sold as cream is Class 2, and that sold for butter, cheese, ice cream mix or other manufactured uses is Class 3 or 4.

The supplies of fluid milk for cities would not be affected because all the reduction, proposed to level down the approaching extreme upward fluctuation, would come out of the surplus, and in almost all cases, would come entirely out of Classes 3 and 4.

The consumption of fluid milk in cities would tend to be increased because the plan calls for expenditure of $5,000,000 to provide milk for underfed children. Thus its use would be extended among those who do not now have money to buy. This part of the plan we thought preferable to expenditure of money to pay for milk products sold at a loss for export to people in other countries. We would be giving milk to our own underfed children, rather than to people abroad.

The $5,000,000 fund for eradication of bovine tuberculosis would be a public health measure, primarily in the interests of the security of city consumers.

So the dairy program is as carefully considered from a consumer's as from a producer's point of view.

I said in the beginning that the consumers and producers of milk are very much in the same boat. One of the advantages of the plan is its recognition of that fact.

It has the flexibility to take immediate advantage of any future rise in consumer buying power.

Farmers are not required to reduce production, but only sales. They can choose their own methods of adjustment. By taking advantage of assistance in feeding plans offered by the Dairy Bureau, they can take advantage of emergency benefit payments to place their herds on a permanently sounder and more economical basis. Consumers will share ultimately in this, too.

Of course, in talking to consumers, we must frankly say that this is first and foremost a dairy farmer's plan. We would like nothing better than to be able to put money into the hands of every family. If all city people had ample buying power, we would have no dairy problem to struggle with. That would be splendid.

But the dairy program faces the facts as they are. The facts are that, pending recovery in consumer buying power, the dairy farmer can wreck his prices if he has no control over volume of production. This control the dairy plan is designed to give. The consumer would suffer along with the farmer from another blow at dairy income. The consumer will gain with the farmer from a sound dairy program leading to recovery of the industry.

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